

Management's Discussion and Analysis

This section of Waukesha County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

The assets of the County exceeded the liabilities at the close of 2003 by \$339.7 million (*net assets*). Of this amount, \$119.1 million (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$10.8 million is restricted for specific purposes (*restricted net assets*), and \$209.8 million is invested in capital assets, net of related debt.

The government's total net assets increased by \$12.5 million. Governmental activities increased the County's net assets by \$13.1 million. This increase was partially offset by a \$629,000 decrease in business type activities net assets.

On December 31, 2003, the County's governmental funds reported combined fund balances of \$105.0 million, an increase of \$3.0 million from 2002. Approximately \$29.3 million, or 28% of the combined fund balance, is unreserved and undesignated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the County's financial statements, in a manner similar to a private-sector business.

- The *statement of net assets* presents information of all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include justice and law enforcement; health and human services; environment, parks, and education; public works, and general government. The business type activities of the County include radio services, golf courses, ice arenas, exposition center, materials recovery facility, and airport.

The government-wide financial statements include not only Waukesha County itself (known as the *primary government*) but also a legally separate Housing Authority for which Waukesha County is accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 28-29 of this report.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Human Services, Long Term Care, and Debt Service funds, all of which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic *governmental fund* financial statements can be found on pages 30-33 of this report.

- *Proprietary funds* are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the airport, radio services, golf courses, ice arenas, exposition center, and materials recovery facility. *Internal service funds* are an accounting device used to accumulate and allocated costs internally amount the County's various functions. The County uses internal service funds to account for vehicle/equipment replacement, central fleet maintenance, records management, communications, risk management/self-insurance, collections, and end user technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The Airport is the only operation considered to be a major fund of the County. The County's seven internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The *proprietary funds* financial statements can be found on pages 34-36 of this report.

- *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 37 of this report.

Notes to the Basic Financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 38-74 of this report.

Required Supplementary Information is presented for the budgetary schedules of the general fund and major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the County, assets exceed liabilities by \$339.7 million at the close of the most recent fiscal year.

Waukesha County's Net Assets (in 000's)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 243,265	\$ 229,555	\$ 13,244	\$ 12,476	\$ 256,509	\$ 242,031
Capital assets	235,214	222,808	39,328	40,991	274,542	263,799
Total assets	478,479	452,363	52,572	53,467	531,051	505,830
Current and other liabilities	116,667	108,527	1,230	1,496	117,897	110,023
Long-term liabilities	73,456	68,624	-	-	73,456	68,624
Total liabilities	190,123	177,151	1,230	1,496	191,353	178,647
Net assets:						
Invested in capital assets, net of related debt	170,435	171,945	39,328	40,991	209,763	212,936
Restricted net assets	10,832	9,763	-	-	10,832	9,763
Unrestricted net assets	107,089	93,504	12,014	10,980	119,103	104,484
Total net assets	\$ 288,356	\$ 275,212	\$ 51,342	\$ 51,971	\$ 339,698	\$ 327,183

The largest portion of the County's net assets (62%) reflects its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment, less any related debt used to acquire those assets that is still outstanding). The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets comprise 35% of the County's net assets. These assets may be used to meet the County's ongoing obligations to citizens and creditors.

The remaining balance of the County's net assets, 3%, represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

The County's net asset increased by \$12.5 million during the current year. This results from total 2003 revenues of \$196.5 million and expenses of \$184.0 million. Overall revenues were up \$2.1 million from the prior year, while expenses increased by \$4.7 million.

The table below and the narrative that follow consider the operations of governmental and business-type activities separately.

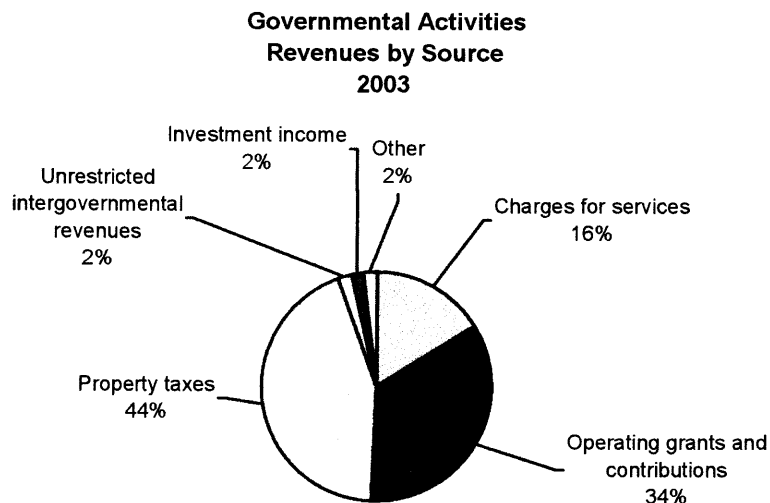
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 30,249	\$ 28,205	\$ 6,663	\$ 6,483	\$ 36,912	\$ 34,688
Operating grants and contributions	64,653	61,829	1,082	1,098	65,735	62,927
Capital grants and contributions	1,992	1,512	-	-	1,992	1,512
General revenues:						
Property taxes	82,474	78,838	563	596	83,037	79,434
Intergovernmental revenues	3,474	3,626	-	-	3,474	3,626
Investment earnings	3,474	9,235	395	427	3,869	9,662
Miscellaneous	1,211	2,525	41	22	1,252	2,547
Gains (losses) on disposal/sale of capital assets	277	(1)	(31)	15	246	14
Total revenues	187,804	185,769	8,713	8,641	196,517	194,410
Expenses:						
Justice and law enforcement	36,079	34,598	-	-	36,079	34,598
Health and human services	77,929	74,647	-	-	77,929	74,647
Environment, parks and education	16,222	17,019	-	-	16,222	17,019
Public works	31,344	27,311	-	-	31,344	27,311
General government	10,271	13,712	-	-	10,271	13,712
Interest expense	3,238	3,141	-	45	3,238	3,186
Radio services			769	819	769	819
Golf courses			3,069	3,090	3,069	3,090
Ice arenas			1,087	1,017	1,087	1,017
Exposition center			768	753	768	753
Materials recovery facility			1,641	1,547	1,641	1,547
Airport			1,638	1,628	1,638	1,628
Total Expenses	175,083	170,428	8,972	8,899	184,055	179,327
Increase (decrease) in net assets before capital contributions and transfers	12,721	15,341	(259)	(258)	12,462	15,083
Capital contributions	23	29	30	318	53	347
Transfers	400	339	(400)	(339)	-	-
Increase (decrease) in net assets	13,144	15,709	(629)	(279)	12,515	15,430
Net assets 1/1/03	275,212	259,503	51,971	52,250	327,183	311,753
Net assets 12/31/03	\$ 288,356	\$ 275,212	\$ 51,342	\$ 51,971	\$ 339,698	\$ 327,183

Governmental Activities

Governmental activities increased the County's net assets by \$12.7 million before capital contributions and transfers, or 100% of the total growth in the net assets of the County. This increase largely reflects the following items:

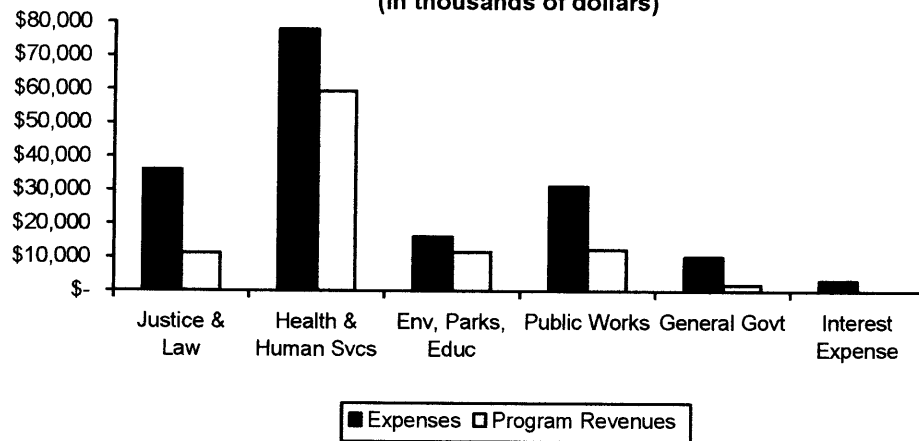
- The annual tax levy provides cash to fund capital project outlays; however the capital project expense is recognized over multiple years as depreciation, resulting in an increase in net assets for the year of \$12.9 million for 2003.
- Net investment results of \$2.2 million were under budgeted amounts by \$3.3 million. This includes a fair value adjustment of \$2.7 million (the decrease in unrealized investment gains for the year), which is not a budgeted item.
- Charges for services revenues exceeded budgeted amounts by over \$2.8 million. Real estate recording and transfer fees in the Register of Deeds office accounts for about \$1.5 million of the revenues over budget.

Revenues for the County's governmental activities total \$187.8 million, with property taxes accounting for 44% of the total revenue, followed by operating grants and contributions.



Governmental activities expenses total \$175.1 million, exceeding program revenue by \$78.2 million, as the following graph displays. When general revenues (which include such items as property tax, investment earnings, and grants and contributions not restricted to specific programs) are included, total revenues exceed expenses by \$12.7 million prior to capital contributions of about \$23,000 and a transfer in of \$400,000 from the Golf Course fund for parkland acquisitions.

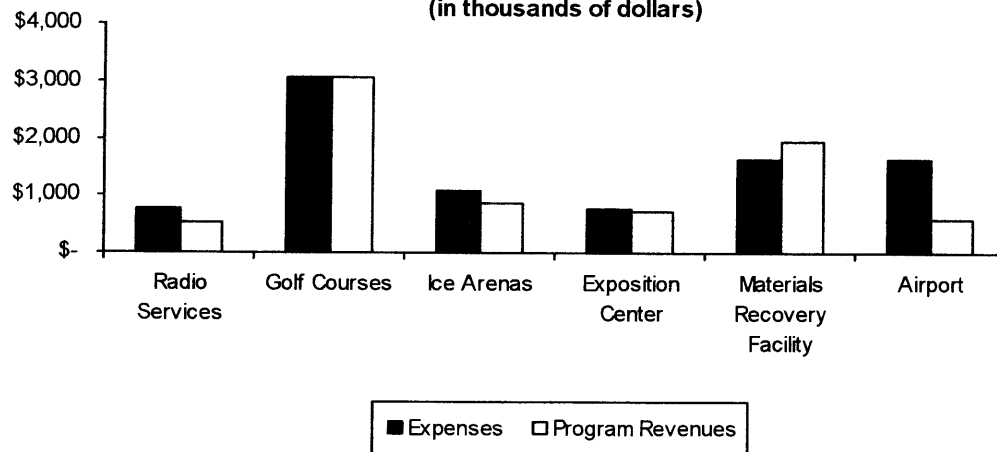
**Governmental Activities
Expenses and Program Revenues
2003
(in thousands of dollars)**



Business-Type Activities

Business-type activities decreased the County's net assets by about \$629,000. Key factors contributing to this decrease include favorable operating results in the materials recovery facility funds, offset by a decrease in net assets of about \$514,000 in the airport fund and a transfer of \$400,000 from the Golf Course fund to governmental funds for parkland acquisitions.

**Business-Type Activities Expenses
2003
(in thousands of dollars)**



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2003, the County's governmental funds reported combined fund balances of \$105.0 million, an increase of \$3.0 million in comparison with the prior year. Approximately 28% of the combined fund balance, \$29.3 million, constitutes unreserved and undesignated fund balance, which is available to meet the County's current and future needs. An additional \$22.3 million is unreserved, but has been designated for either capital projects or subsequent year's expenditures.

The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for one of the following: 1) to pay debt service (\$3.2 million); 2) to reflect inventories and the amount due from other funds that are long term in nature and thus do not represent available spendable resources (\$9.1 million); 3) to liquidate contractual commitments of the period (\$34.9 million); 4) for delinquent property taxes (\$5.9 million); and 5) for park purposes (\$0.2 million).

The general fund, which is the chief operating fund of the County, increased in total fund balance by \$1.5 million for the year. The reserved and designated portions increased by \$3.5 million, reflecting primarily the County's plan to prepay \$2.8 million of its outstanding debt in 2004. The undesignated, unreserved portion decreased by \$2.0 million, reflecting the planned use of fund balance for one time capital projects. The undesignated portion of the General fund, when combined with the unreserved Special Revenue fund balance, will provide working capital for about nine weeks of operations based on the 2004 adopted budget.

The County has a policy that the ratio of undesignated general and special revenue fund balance to total operating expenditures shall be maintained above 11%. As of January 1, 2004 it is at 16.8%. This level is over the County's managed plan reduction goal of 15% for January 2004. County policy limits use of fund balance to one-time costs, which in most cases reduce future operating budget costs.

The schedules on the following page present a summary of general, special revenue, capital, and debt service fund revenues and expenditures for the fiscal year ended December 31, 2003 and the amount and percentage of increases and decreases in relation to the prior year.

Waukesha County's Revenues by Source
Governmental Funds
(in \$000's)

	2003 <u>Amount</u>	Percent of <u>Total</u>	Increase (Decrease) from 2002	
			<u>Amount</u>	<u>Percent</u>
Taxes	\$79,097	42%	\$3,340	4%
Intergovernmental revenues	71,257	38%	2,951	4%
Fines and licenses	3,635	2%	242	7%
Charges for services	19,225	10%	1,968	11%
Interdepartmental revenues	3,405	2%	218	7%
Investment earnings	2,912	2%	(5,656)	-66%
Miscellaneous revenues	<u>10,353</u>	<u>4%</u>	<u>1,041</u>	11%
	\$189,884	100%	\$4,104	2%

Governmental property taxes increased by \$3.3 million to \$79.1 million, or 42% of total revenues. Tax levy represented 41% of total revenues in 2002.

Intergovernmental revenues increased by almost \$3 million due mainly to additional funding for Long Term Care programs of \$2.5 million, reflecting increased client services.

The decrease in investment results of \$5.7 million reflects a continuation of low market rates resulting in lower County rates of return. In addition, the decrease in unrealized gains on investments was \$2.7 for the year. Since the County typically holds investments to maturity, the fluctuation in market value from year to year will generally not result in actual realized gains or losses.

Waukesha County
Expenditures by Function
Governmental Funds
(in \$000's)

	2003 <u>Amount</u>	Percent of <u>Total</u>	Increase (Decrease) from 2002	
			<u>Amount</u>	<u>Percent</u>
Justice and Law Enforcement	\$37,009	18%	\$2,148	18%
Health and Human Services	79,453	40%	3,822	31%
Environment, Parks & Education	16,582	8%	498	4%
Public Works	18,076	9%	(954)	-8%
General Government	11,323	6%	(794)	-7%
Capital Project Funds	25,780	13%	6,879	56%
Debt Service:				
Principal Retirement	8,920	4%	475	4%
Interest and Fiscal Charges	<u>3,134</u>	<u>2%</u>	<u>128</u>	<u>1%</u>
	\$200,277	100%	\$12,202	5%

General government expenditures decreased \$794,000 from 2002. There was a one-time expense of \$1.35 million in 2002 to increase insurance reserves which was not repeated in 2003.

Capital project expenditures increased \$6.9 million. The new Communications Center, with 2003 expenditures of \$3.8 million, and Justice Facility project, with expenditures of \$3.9 million, account for much of the increase.

Proprietary funds. Waukesha County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$2.4 million increase in appropriations that can be briefly summarized as follows:

Carryovers and open purchase orders accounted for \$1.2 million. About 70% of the remaining \$1.2 million increase is attributable to grants.

During the year actual revenues exceeded the budget by about \$309,000. The largest budget to actual variance occurred in investment income, which was \$3.3 million under budget. A continuation of low federal funds rates resulted in lower County rates of return. In addition, the decrease in unrealized gains on investments was \$2.7 million for the year. Since the County typically holds investments to maturity, the fluctuation in market value from year to year does not result in realized gains or losses.

The variance in investment income was more than offset by other revenues exceeding budget. Service fee revenues from real estate transfer and recording fees in the Register of Deeds office were \$1.5 million over budget, reflecting a historically high number of documents recorded in 2003.

Actual expenditures were less than budget by \$5.7 million, or 7% of the total modified budget. The County also appropriated \$1.35 million for contingencies; actual needed was \$200,000. The over-realization of revenues and under-utilization of appropriations eliminated the need to draw upon existing fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental and business-type activities at December 31, 2003, amounted to \$274.5 million (net of accumulated depreciation), an increase of \$10.7 million over 2002. This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment, and construction in progress.

The County's infrastructure assets are recorded at estimated historical cost in the government-wide financial statements. The County has elected to use the depreciation method of reporting capital assets.

Further details of the County's capital assets can be found in the notes to the financial statements.

Long-term debt

At December 31, 2003, the County had \$69,665,000 of general obligation promissory notes outstanding. The County maintains an Aaa rating from Moody's Investors Service and AAA from Fitch Investors Service on general obligation note issues. Under current state statutes, the County's general obligation note issuances are subject to a legal limitation, based on five percent of the equalized value of taxable property in the County. As of December 31, 2003 the County's total amount applicable to debt margin (outstanding notes less debt service fund balance) is \$66.5 million, which was well below the legal limit of \$1.8 billion. The net debt per capita equaled \$188 at year-end.

During the year, the County issued \$13,500,000 of general obligation promissory notes, dated April 1, 2003 finance part of the cost of capital improvements within the County.

Further details of the County's long-term debt activity can be found in the notes to the financial statements.

Economic Factors and the 2004 Budget and Rates

Due to the State's fiscal crisis, the County anticipates State funding reductions of \$1.7 million. State shared revenue for mandate relief of about \$1.1 million, budgeted in the capital projects budget in 2003, will be eliminated, but it was not anticipated for funding in the 2004 five year capital projects plan.

Health care premiums are expected to increase about 16%, moderating somewhat from the 30% and 25% increases over the past two years.

The start up of a County-wide shared dispatch Communications Center will impact heavily on 2004 and 2005 budgets, but ultimately should help save local municipalities as much as \$2.7 million a year.

All of these factors were considered in preparing Waukesha County's budget for the 2004 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, Accounting Services Division, 1320 Pewaukee Road, Waukesha, WI 53188.

Questions concerning any of the information provided in this report regarding the discretely presented component, Waukesha County Housing Authority, or requests for additional information should be addressed to the Waukesha County Housing Authority, 120 Corrina Blvd, Waukesha, WI 53186.